

PACE FUND

**FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

PACE FUND

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INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying balance sheets of the PACE Fund as of June 30, 2008 and 2007, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. These financial statements are the responsibility of the PACE Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

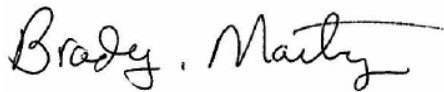
As discussed in Note 1, the financial statements present only the PACE Fund and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PACE Fund as of June 30, 2008 and 2007, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the PACE Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements on pages 13 through 16 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style with a horizontal line extending from the end.

BRADY, MARTZ & ASSOCIATES, P.C.

September 29, 2008

**PACE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

The management's discussion and analysis of the PACE Fund's financial performance provides an overview of the PACE Fund's financial activities for the fiscal year ended June 30, 2008 and 2007. Please read it in conjunction with the financial statements of the PACE Fund.

FINANCIAL HIGHLIGHTS:

The purpose of the PACE (Partnership in Assisting Community Expansion) Fund is to assist North Dakota communities in expanding their economic base. The program is available to all cities and counties throughout North Dakota for qualified projects. These loans are made by a lead financial institution in participation with Bank of North Dakota.

The 2007 Legislature approved the following appropriations and transfers from the above identified PACE programs during the biennium July 1, 2007 through June 30, 2009:

PACE	\$8,000,000 (2,000,000) 834,542 <u>568,324</u> \$7,402,866*	Legislative Appropriation Earmarked for Flex PACE Carry Forward from Previous Biennium Adjustments on Defaulted or Prepaid PACE Loans
Flex	\$2,000,000 <u>17</u> \$2,000,017	Earmarked from PACE Adjustments on Defaulted or Prepaid Flex PACE Loans
Biofuels	\$4,200,000 <u>801,964</u> \$5,001,964 <u>(30,000)</u> \$4,971,964	Legislative Appropriation Remaining Biodiesel buydown dollars Transfer per HB 1515 to Biomass Incentive and Research

*It should also be noted that HB 1018 allows for the possible transfer of \$1 million of PACE funds to the ND Development Fund. At this time, there is no indication that the transfer will be necessary.

\$2 million of the \$8 million PACE appropriation has been earmarked for Flex PACE for the 2007-2009 biennium. BND loan policy limited the amount for Flex PACE to \$2 million subject to having adequate PACE funds available. For the 2005 – 2007 biennium, \$2 million of the \$5.7 million Pace appropriation was earmarked for Flex PACE, but with increased demand for PACE the Flex PACE program was limited to \$1,576,718 in available interest buydown.

A separate appropriation of \$1.2 million was made for the 2005-2007 biennium for the Biodiesel PACE program. In August of 2007, the Legislative Assembly re-designated the N.D.C.C. 6-09.17 Biodiesel Partnership in Assisting Community Expansion as N.D.C.C. 17-03 Biofuels Partnership in Assisting Community Expansion. HB 1014 of the 2007 legislative session authorized the transfer of the remaining buydown interest totaling \$801,864 in the Biodiesel PACE Program to the Biofuels PACE Program. An additional \$218,440 was transferred for the one Biodiesel PACE loan funded in the previous biennium.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The following is a recap of the PACE Fund activity for fiscal years ended June 30, 2007 and June 30, 2008:

	PACE	Flex PACE	BioDiesel & BioFuels PACE
Current number of loans	208	32	10
Total outstanding principal	\$ 56,038,558	\$ 10,572,147	\$ 3,214,904
Current remaining buydown to be paid by Fund	\$ -	\$ -	\$ -
Loans funded in year ended June 30, 2007	29	7	-
Original loan amount funded	\$ 9,297,165	\$ 5,457,059	\$ -
Buydown	\$ 2,250,879	\$ 595,517	\$ -
Buydown not disbursed	\$ 776,419	\$ -	\$ -
Loans funded in year ended June 30, 2008	26	13	9
Original loan amount funded	\$ 22,800,750	\$ 6,013,165	\$ 3,667,478
Buydown	\$ 3,117,072	\$ 710,679	\$ 998,708
Buydown not disbursed	\$ 385,282	\$ -	\$ -
Loans pending as of June 30, 2008	9	4	4
Loan commitments outstanding	\$ 5,991,500	\$ 968,444	\$ 926,200
Buydown	\$ 1,261,679	\$ 241,800	\$ 254,469
Available buydown as of June 30, 2008	\$ 5,090,150	\$ 1,047,537	\$ 3,718,787

REQUIRED FINANCIAL STATEMENTS:

The PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. The basic financial statements include the balance sheet and the statement of revenues, expenditures and changes in fund balances. The balance sheet provides readers the assets and liabilities of the PACE Fund, with the differences between the two reported as fund balances. The statement of revenues, expenditures and changes in fund balances identifies the operating performances of the PACE Fund for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

CONDENSED BALANCE SHEETS JUNE 30, 2008 AND 2007

	(In Thousands)	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash deposits	<u>\$ 23,410</u>	<u>\$ 14,150</u>
LIABILITIES	\$ -	\$ -
FUND BALANCE	<u>23,410</u>	<u>14,150</u>
Total liabilities and fund balance	<u>\$ 23,410</u>	<u>\$ 14,150</u>

Fund Balance

The Fund Balance represents funds available to the PACE program. Fund balance increased by \$9,260 or a 65.4% increase.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEARS ENDED JUNE 30, 2008 AND 2007

	(In Thousands)	
	2008	2007
REVENUES - Interest income	\$ 373	\$ 352
EXPENDITURES - Buydown interest	3,283	3,177
EXPENDITURES OVER REVENUES	(2,910)	(2,825)
OPERATING TRANSFER IN / OUT	12,170	2,000
NET CHANGE IN FUND BALANCE	9,260	(825)
FUND BALANCE, BEGINNING OF YEAR	14,150	14,975
FUND BALANCE, END OF YEAR	\$ 23,410	\$ 14,150

Expenses

Buydown interest expense is the Fund's share of the periodic payments made to the trustee to cover the interest rate buydown.

Operating Transfers In/Out

The legislature appropriated \$8,000,000 to PACE and \$4,200,000 to BioFuels PACE for the 2007 – 2009 Biennium. \$30,000 was transferred from the BioFuels PACE program to Biomass Incentive and Research per HB 1515.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the PACE Fund's finances and to demonstrate the PACE Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.

PACE FUND
BALANCE SHEETS
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	<u><u>\$ 23,410,534</u></u>	<u><u>\$ 14,150,277</u></u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
FUND BALANCE		
Reserved for interest buydown equipments	<u>13,554,060</u>	<u>12,566,486</u>
Designated for future interest buydown commitments	<u><u>9,856,474</u></u>	<u><u>1,583,791</u></u>
Total fund balance	<u><u>23,410,534</u></u>	<u><u>14,150,277</u></u>
Total liabilities and fund balance	<u><u>\$ 23,410,534</u></u>	<u><u>\$ 14,150,277</u></u>

PACE FUND**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
REVENUES		
Interest income	\$ 372,848	\$ 352,541
EXPENDITURES		
Buydown interest	<u>3,282,591</u>	<u>3,177,131</u>
EXPENDITURES OVER REVENUES	(2,909,743)	(2,824,590)
OTHER FINANCING SOURCES (USES)		
Operating transfer in	12,200,000	2,000,000
Operating transfer out	<u>(30,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	9,260,257	(824,590)
FUND BALANCE, BEGINNING OF YEAR	<u>14,150,277</u>	<u>14,974,867</u>
FUND BALANCE, END OF YEAR	<u>\$ 23,410,534</u>	<u>\$ 14,150,277</u>

PACE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09.14 of the North Dakota Century Code (NDCC) established the Partnership in Assisting Community Expansion (PACE) Fund. The fund is revolving and all moneys transferred into the fund, interest on fund moneys and payments to the fund are appropriated for the purposes of the fund. The Bank of North Dakota supervises and administers the PACE Fund. The purpose of the PACE Fund is to buydown the interest rate on loans made by a lead financial institution in participation with the Bank of North Dakota. The Bank of North Dakota's participation may not exceed 80% nor be less than 50% of the total loans. If the lenders approve the loan and there is evidence of the community's commitment and ability to fund its portion of the buydown, the fund's participation in the buydown is approved as part of BND's loan approval process.

The PACE programs recognize two rates: Yield Rate and Borrowing Rate. The yield rate is the rate charged by the lead lender for the loan. The borrowing rate is the rate charged to the borrower. The interest differential is the difference between the yield rate and the borrowing rate. This difference is paid to the lead lender under an agreement among the lead lender, the borrower, the community (if required) and the Bank of North Dakota on behalf of the PACE Fund. The PACE fund provides buydown dollars, to the extent available, to reduce the borrower's interest rate by a maximum of 5% and may not be less than one percent (1%).

PACE Program

Loans eligible for the buydown are loans to new or expanding North Dakota businesses using the proceeds to purchase real property or equipment, expand their facility, or fund permanent working assets. The loan funds cannot be used to refinance any existing debt or for the relocation of business within North Dakota. The community shall determine the amount of the interest rate buydown and apply to the Bank of North Dakota for participation from the PACE Fund. The funds for the community's portion of the buydown may come from local development corporation contributions, community funds, future dedicated tax programs, or any other community source. The maximum amount from the fund in the interest rate buydown may not exceed \$300,000 per borrower in any biennium. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

Flex PACE Program

Flex PACE was designed to provide interest buydown to non-PACE qualifying businesses in which the community determines eligibility and accountability standards. Flex PACE targets essential community businesses without the job creation requirement. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. The maximum buydown amount is \$150,000 per borrower in any biennium. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

Biodiesel PACE Program

Biodiesel PACE was created in compliance with NDCC 6-09.17 to provide interest buydown to biodiesel production facilities located in North Dakota involved in the production of diesel fuel containing at least five percent biodiesel. The maximum amount of interest buydown per biodiesel project is \$400,000. The community's interest buydown match and job creation are not required. Effective July 1, 2007, the Biodiesel PACE program was replaced with the Biofuels PACE program.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Biofuels PACE Program

Biofuels is established in N.D.C.C 17-03 to provide interest buy-down to qualified North Dakota businesses which are defined as biodiesel and ethanol production facilities, livestock operations, biofuels retailers, and condominium grain handling facilities. The maximum interest buy-down per borrower for each eligible use is \$500,000 for a biodiesel or ethanol project, \$250,000 for a livestock operation, \$10,000 for a single biofuels retailer, and \$50,000 for a condominium grain handling facility. The cumulative interest rate buy down amount available for biofuels retailers and condominium grain handling facilities is limited to \$250,000 each for a total of \$500,000. The Biofuels PACE Loan Program does not require a community interest buy down match or job creation. Recipients of Biofuels PACE are not eligible for regular PACE or Flex PACE funds.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the PACE Fund should include all component units over which the PACE Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or, (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PACE Fund.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The PACE Fund is included as part of the primary government of the State of North Dakota's (State) reporting entity.

Accounting Standards and Adoptions of Accounting Policies

The PACE Fund follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

Fund Accounting

The PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined. Available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State has defined available as being collected within one year.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Special revenue funds are accounted for using current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2 - DEPOSITS

The carrying value and bank balance of the PACE Fund's cash deposits at June 30, 2008 and 2007, was \$23,410,534 and \$14,150,277, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. None of the Fund's deposits are covered by depository insurance. The Fund's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

NOTE 3 - INTERFUND TRANSACTIONS AND SUBSEQUENT EVENTS

During the year ended June 30, 2008, the PACE Loan Program transferred \$2,000,000 to the Flex PACE Program and \$30,000 was transferred from the Biofuels PACE Program.

The PACE Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The Bank of North Dakota pays interest to the PACE Fund on monies that have been disbursed to the funding agency. In lieu of an administrative fee, the Bank of North Dakota does not pay interest to the PACE Fund on the cash accounts held at the Bank of North Dakota that have not been disbursed to the funding agency. Interest buydowns amortized into interest expense totaled \$3,282,591 and \$3,177,131 for the years ended June 30, 2008 and 2007, respectively.

The 2007 North Dakota Legislature passed House Bill 1014 that provides an appropriation of \$8,000,000 from the North Dakota General Fund to the PACE Fund, \$4,200,000 to the BioFuels Program, and a \$801,964 transfer from the BioDiesel to the BioFuels Program during the biennium beginning July 1, 2007 and ending June 30, 2009.

The 2007 North Dakota Legislature passed House Bill 1018 that provides for an appropriation of up to \$1,000,000 from the PACE Fund to the North Dakota Commerce Department for the North Dakota Development Fund.

NOTE 4 - RESERVED FUND BALANCE

The Fund Balance that is reserved for legally contracted interest buydowns consists of the following:

	<u>2008</u>	<u>2007</u>
Monies that have been disbursed to the funding agency	\$ 11,873,994	\$ 10,525,617
Funds that have not been disbursed to the funding agency	<u>1,680,066</u>	<u>2,040,869</u>
Total reserved fund balance	<u>\$ 13,554,060</u>	<u>\$ 12,566,486</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - RISK MANAGEMENT

The PACE Fund is exposed to various risks of loss related to torts and errors and omissions. The PACE Fund is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$100,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.

SUPPLEMENTARY INFORMATION

PACE FUND

PACE FUND
COMBINING BALANCE SHEET
JUNE 30, 2008

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
CURRENT ASSETS					
Cash deposits at the					
Bank of North Dakota	\$ 15,540,139	\$ 2,846,553	\$ 5,023,842	\$ -	\$ 23,410,534
Due from Flex PACE Fund	<u>77,838</u>	<u>-</u>	<u>-</u>	<u>(77,838)</u>	<u>-</u>
Total assets	<u><u>\$ 15,617,977</u></u>	<u><u>\$ 2,846,553</u></u>	<u><u>\$ 5,023,842</u></u>	<u><u>\$ (77,838)</u></u>	<u><u>\$ 23,410,534</u></u>
LIABILITIES AND FUND BALANCE					
CURRENT LIABILITIES					
Due to PACE Fund	<u>\$ -</u>	<u>\$ 77,838</u>	<u>\$ -</u>	<u>\$ (77,838)</u>	<u>\$ -</u>
FUND BALANCE					
Reserved for legally					
contracted interest buydowns	10,527,827	1,721,178	1,305,055	-	13,554,060
Designated for interest					
buydown commitments	<u>5,090,150</u>	<u>1,047,537</u>	<u>3,718,787</u>	<u>-</u>	<u>9,856,474</u>
Total fund balance	<u>15,617,977</u>	<u>2,768,715</u>	<u>5,023,842</u>	<u>-</u>	<u>23,410,534</u>
Total liabilities and fund balance	<u><u>\$ 15,617,977</u></u>	<u><u>\$ 2,846,553</u></u>	<u><u>\$ 5,023,842</u></u>	<u><u>\$ (77,838)</u></u>	<u><u>\$ 23,410,534</u></u>

PACE FUND
COMBINING BALANCE SHEET
JUNE 30, 2007

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioDiesel PACE</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
CURRENT ASSETS					
Cash deposits at the					
Bank of North Dakota	\$ 11,926,053	\$ 1,203,820	\$ 1,020,404	\$ -	\$ 14,150,277
Due from Flex PACE Fund	<u>18</u>	<u>-</u>	<u>-</u>	<u>(18)</u>	<u>-</u>
Total assets	<u>\$ 11,926,071</u>	<u>\$ 1,203,820</u>	<u>\$ 1,020,404</u>	<u>\$ (18)</u>	<u>\$ 14,150,277</u>
LIABILITIES AND FUND BALANCE					
CURRENT LIABILITIES					
Due to PACE Fund	<u>\$ -</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ (18)</u>	<u>\$ -</u>
FUND BALANCE					
Reserved for legally					
contracted interest buydowns	11,144,244	1,203,802	218,440	-	12,566,486
Designated for interest					
buydown commitments	<u>781,827</u>	<u>-</u>	<u>801,964</u>	<u>-</u>	<u>1,583,791</u>
Total fund balance	<u>11,926,071</u>	<u>1,203,802</u>	<u>1,020,404</u>	<u>-</u>	<u>14,150,277</u>
Total liabilities and fund balance	<u>\$ 11,926,071</u>	<u>\$ 1,203,820</u>	<u>\$ 1,020,404</u>	<u>\$ (18)</u>	<u>\$ 14,150,277</u>

PACE FUND**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2008**

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>BioDiesel PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES						
Interest income	\$ 323,163	\$ 42,905	\$ 6,780	\$ -	\$ -	\$ 372,848
EXPENDITURES						
Buydown interest	<u>2,631,257</u>	<u>477,992</u>	<u>173,342</u>	<u>-</u>	<u>-</u>	<u>3,282,591</u>
EXPENDITURES OVER REVENUES	(2,308,094)	(435,087)	(166,562)	-	-	(2,909,743)
OTHER FINANCING SOURCES (USES)						
Operating transfer in	8,000,000	2,000,000	5,220,404	-	(3,020,404)	12,200,000
Operating transfer out	<u>(2,000,000)</u>	<u>-</u>	<u>(30,000)</u>	<u>(1,020,404)</u>	<u>3,020,404</u>	<u>(30,000)</u>
NET CHANGE IN FUND BALANCE	3,691,906	1,564,913	5,023,842	(1,020,404)	-	9,260,257
FUND BALANCE, BEGINNING OF YEAR	<u>11,926,071</u>	<u>1,203,802</u>	<u>-</u>	<u>1,020,404</u>	<u>-</u>	<u>14,150,277</u>
FUND BALANCE, END OF YEAR	<u>\$ 15,617,977</u>	<u>\$ 2,768,715</u>	<u>\$ 5,023,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,410,534</u>

PACE FUND**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2007**

	<u>PACE</u>	<u>Flex PACE</u>	<u>BioDiesel PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES					
Interest income	\$ 306,416	\$ 33,345	\$ 12,780	\$ -	\$ 352,541
EXPENDITURES					
Buydown interest	<u>2,614,932</u>	<u>366,800</u>	<u>195,399</u>	<u>-</u>	<u>3,177,131</u>
EXPENDITURES OVER REVENUES	(2,308,516)	(333,455)	(182,619)	-	(2,824,590)
OTHER FINANCING SOURCES (USES)					
Operating transfer in	2,251,765	77,396	-	(329,161)	2,000,000
Operating transfer out	<u>(77,396)</u>	<u>(251,765)</u>	<u>-</u>	<u>329,161</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(134,147)	(507,824)	(182,619)	-	(824,590)
FUND BALANCE, BEGINNING OF YEAR	<u>12,060,218</u>	<u>1,711,626</u>	<u>1,203,023</u>	<u>-</u>	<u>14,974,867</u>
FUND BALANCE, END OF YEAR	<u>\$ 11,926,071</u>	<u>\$ 1,203,802</u>	<u>\$ 1,020,404</u>	<u>\$ -</u>	<u>\$ 14,150,277</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the PACE Fund as of and for the year ended June 30, 2008, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the PACE Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PACE Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PACE Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

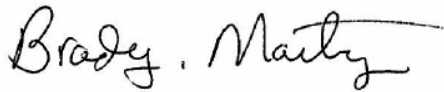
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PACE Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management of the PACE Fund, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Brady Martz", with a stylized, flowing script.

BRADY, MARTZ & ASSOCIATES, P.C.

September 29, 2008

**PACE FUND
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2008**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

1. What type of opinion was issued on the financial statements?

An unqualified opinion was issued on the 2008 financial statements.

2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?

Yes - A review was made of Chapter 6-09-14 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.

3. Was internal control adequate and functioning effectively?

Yes

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No

5. Has action been taken on findings and recommendations included in prior year audit reports?

There were no prior year findings.

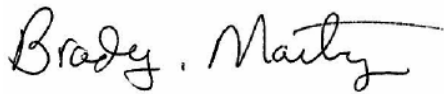
6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.

No

7. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission.

Based on the audit procedures performed, the PACE Fund's critical information technology system is the Information Technology Inc. (ITI) system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.

September 29, 2008

**INDEPENDENT AUDITOR'S COMMUNICATION
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the PACE Fund for the year ended June 30, 2008, and have issued our report thereon dated September 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on August 20, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the PACE Fund are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 29, 2008.

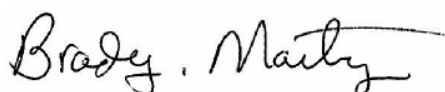
Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This letter is intended solely for the information and use of the North Dakota Industrial Commission and management of the PACE Fund, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 29, 2008

BRADY, MARTZ & ASSOCIATES, P.C.